This record is a partial extract of the original cable. The full text of the original cable is not available.

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UNCLAS SECTION 01 OF 02 LAGOS 002077

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DAKAR PLEASE PASS TO FAA ED JONES; BRUSSELS TO TSA JESS PRESAS; DOT TO KEVIN SAMPLE AND FAA FOREST RAWLS III

E.O. 12958: N/A
TAGS: EAIR EINV ECON NI
SUBJECT: NIGERIA ECONOMIC UPDATE, OCTOBER 12

REF: LAGOS 1920

¶1. (U) This update includes:

-- Airfare Increase of 40% Expected for Domestic Flights
-- Runway to Shut Down for 8 Months at Lagos International Airport for Safety Upgrades
-- Textile Leaders in the Lagos Area Want to Take Advantage of AGOA
-- Cadbury Nigeria Thrives Despite High Production Costs

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Airfare Increase of 40% Expected for Domestic Flights
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¶2. (U) While the nation braced for the nationwide stay-at-home October 11 in protest over announced fuel price hikes, domestic airline operators saw this as the opportune moment to decide increased fares. The press reported that fares for domestic travel might increase as much as 40 percent due to the expected cost increase for jet fuel. (Note: Most domestic tickets currently cost about 10,000 naira (around $75). End Note.) However, an official from a domestic airline, Overland Airways, told econoff each airline will decide their fare increases. While some companies may seek a forty percent hike, others may not.

¶3. (U) Federal Airports Authority of Nigeria (FAAN) Chief Passages Officer, Victor Arisa, told Econoff past fuel increases negatively affected domestic airlines. People opt for alternative means of travel than pay higher fares. For now, Arisa said, the airfare hike is simply being discussed as a possibility. Comment: Some rate of increased fares is expected as carriers pass on their increased fuel cost to the consumer. However, most observers believe an across-the-board 40 percent hike is unlikely. End comment.

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Runway to Shut Down for 8 Months at Lagos International Airport for Safety Upgrades
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¶4. (U) Meanwhile, the Murtala Muhammed International Airport has closed one of its two runways for re-surfacing and rehabilitation. Domestic and international flights will therefore share a single runway for up to eight months. Federal Airports Authority of Nigeria (FAAN) General Manager of Security, Mrs. A.A. Faworaja, told Econoff the closure will not affect flight schedules due to the mutual exclusivity of most international and domestic takeoff and landing flight times. The runway's rehabilitation is expected to cost more than 2 billion naira (about $15 million).

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Textile Leaders in the Lagos Area Want to Take Advantage of AGOA
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¶5. (SBU) Econoff and Econspec recently met with J.P. Olarewaju, Executive Director of Nigerian Textile Manufacturer's Association and Nigerian Textile Mills management. Olarewaju said Nigerian textile manufacturers were in bad shape. In the past seven years, nearly 50 mills have closed around the country and eleven are currently in danger of the same. The GON banned textile imports in January 2004 to help ailing manufacturers; but cheap smuggled imports still make their way into Nigeria, crowding out locally-made products. Nigerian textile manufacturers want to take advantage of AGOA to boost sales but few have the capability to produce textiles for the US market, Olarewaju said.

¶6. (SBU) Dangote-owned Nigerian Textile Mills told Econoff and Econspec it is one of only two or three Nigerian textile producers preparing to export to the US today. Dangote Group companies are part of the privileged few enterprises in Nigeria with the capital base to invest in new equipment and training to meet US production and quality standards. During the meeting, Nigerian Textile Mills management pleaded for US market information (Note: Econoff referred them to the Lagos AGOA Resource Center (reftel) End Note.)

¶7. (SBU) Comment: President Obasanjo's appointed Special Advisor on AGOA has been actively prmotoing AGOA opportunities to Nigeria's textile manufacturers through meetings and symposiums. However this cajolery will be largely ineffective until Nigerian manufacturers gain the capacity to manufacture competitively priced, quality goods. End Comment.

Cadbury Nigeria Thrives Despite High Production Costs

¶8. (SBU) During a September 24 visit to the Cadbury Nigeria processing facility, Managing Director, Bunmi Oni, told CG and Econoff that Cadbury is successfully navigating the challenges of the Nigerian business environment -- uneven power supply, import bans and high tariffs on product inputs, and high corporate taxes. Despite high production and ancillary costs, Cadbury is doing well. The company's profits have increased for each of the last four years and Oni predicted that current production would triple or quadruple over the next four years.

¶9. (SBU) To cope with a nationwide power supply problem, the energy-intensive Cadbury factory has its own eight megawatt power transformer on site. Cadbury also has its own water supply and purification system. To cope with the erratic quality and output of Nigerian sugar and cocoa crops, Cadbury Nigeria takes measures such as providing local cocoa farmers with higher-quality plants, or importing products at a higher cost. To minimize the impact of Nigeria's poor infrastructure and the vagaries of its overall agricultural system, Cadbury has decided to become as self-contained an operation as possible.

¶10. (U) Comment: Cadbury Nigeria is proof that companies can be successful in Nigeria despite the challenging production environment. However, companies have to be innovative and also have access to sufficient capital to help them invest in ways that overcome Nigeria's infrastructural inefficiencies. For companies willing to take on the vast Nigerian market opportunities and risks, Cadbury is a successful model of ingenuity, resourcefulness and good management.
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